Accelerating the Pace of Change

Santos 2003 Full Year Results

John Ellice-Flint
Managing Director
Santos Ltd
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Welcome everyone to the Santos’ full year results presentation for 2003 and thank you for coming.

As many of you know, I have been in the chair at Santos now for three years. Today – as well as discussing the 2003 results - I will outline what we’ve achieved over the past three years and also talk about the next three years.

We have delivered on the majority of goals outlined in our 2001 Strategy and we’re getting ready to accelerate those results.

Our business model is delivering. We are in a unique position for an E&P company of our size. We have four main tools in our arsenal to growth the corporation.

By grow I mean value adding addition of barrels in the form of production and reserves. We can have growth by Exploration, Gas Commercialisation and Marketing, Production Optimisation and Mergers and Acquisitions.

What also differentiates us is that we are structured to take full advantage of the conveyor belt of opportunity.

What’s different between 2001 and now is that in 2001 any project was a good project, now we have choice and we are highgrading the projects.

Three years ago the conveyor belt was broken. There were big gaps. The cupboard was bare. Production was set to fall. Australian gas prices were under pressure and many of our gas contracts were due to expire.

Now, three years later, the situation is significantly better. We have a good suite of quality development projects. We have choices. In 2004 our priority is making the right portfolio choices. It is a fight for capital to get good results for shareholders and to improve returns across the board.
• We now have the people, and risk management systems in place and the understanding that allows us to make superior portfolio decisions. We have the acreage, the structure and we are ready to take off.

• Having said that, there are still plenty of challenges. I was pleased with the increase in 1P reserves this year but disappointed by the fall in 2P. Our aim in 2004 is to convert contingent resources, 4P and 3P to the 2P and 1P side of the ledger.

• The Moomba incident at the New Year was a disappointment. We are on schedule to bring the plant back to normal again. We are reinjecting gas and producing oil at about 90 percent of the normal rate. The liquid recovery plant is on schedule for first production in May.

• We have four tools in our growth arsenal: Exploration, Production Optimisation, Gas Commercialisation and Mergers and Acquisitions. I am confident that we have the people and systems in place to deliver.

  o Exploration delivered in 2001 and 2002;
  o Production Optimisation delivered in 2001, 2002 and 2003 with initiatives in the gas side of the business;
  o Gas Commercialisation had an outstanding year in 2003 and covered the poor performance of Exploration;
  o In Mergers and Acquisitions we continue to rationalise our portfolio;
  o Under Costs, we set our $50 million goal in May 2001 – we achieved $185 million.

So as you can see, we have a lot to be very proud of.
Slide 3 – 2003 at a Glance

Now – a look at the headline financials.

- Net operating profit after tax at $327 million was virtually steady, with lower production but higher gas prices. We also benefited from once-off tax changes ($55 million).

- For Santos, Cash Flow is the REAL measure of the underlying strength of our business – and we continue to deliver.

- The latest increase in cash flow to $897 million in 2003 means the Company is generating a 12 percent average compound annual growth rate in operating cash flows.

- Total shareholder return for 2003 was 20 per cent - well ahead of Santos’ target of 14 per cent.

- Our full-year dividend has been maintained at 30 cents per share – providing a continuing solid yield for shareholders.

- At a time when Santos is on the verge of one of the biggest and most exciting capital expenditure periods in the Company’s history, it is pleasing to see continual decline in gearing to 23 per cent at the end of 2003.

- That's our lowest gearing since the 1960s when Santos was developing the Cooper Basin assets.

- The reduced gearing and our strong cash flow reflect the strength of our business and our capacity to fund growth.

- The 2003 production decline reflected the Company's under-investment in new projects in the late 1990’s.

- In summary:-
  - Many achievements to date
  - Exciting times ahead
  - But still plenty of challenges
Slide 4 – 2003 Operational Performance

- As I mentioned earlier, there are four main tools in our growth arsenal – Exploration, Production Optimisation, Gas Commercialisation and Mergers and Acquisitions.

- In 2003, the star performance came from gas commercialisation which contributed an additional 69 million boe to proven reserves.

- This is the second year in a row we added more 1P reserves than we produced – this time, achieving a 148 percent reserves replacement ratio.

- After our 2001 and 2002 exploration highlights, the results of our 2003 search were obviously disappointing. However, we are only just beginning to rebuild the portfolio by testing high impact plays in new acreage.

- We were active in portfolio rationalisation in 2003, selling our OCA interest at a handsome profit.

- Another 2003 success was production optimisation where we reduced the rate of decline in onshore oil production. We achieved continued success in our onshore gas program, producing 61 TJ/d at a significantly lower cost. Production optimisation is now very much part of our culture.

- We also achieved positive results in lowering our finding and development cost. The majority of reserve adds were gas and, on an equivalent mcf basis, the reserve replacement cost is equivalent to 97 cents US - a top quartile performance globally.
Slide 5 – 2003 Gas Commercialisation

- Gas Commercialisation in 2003 was an outstanding result for the Company.

- In fact, it was our largest year of Gas Commercialisation since the 1970s.

- A total of 510 PJ of new contracts and agreements were signed in 2003, the highlight being Bayu Undan LNG.

- The successful sale of gas from the Casino field to TXU was a ground-breaking commercial contract in the manner it was consummated. We were able to finalise the sales contract with TXU – before actually drilling the second appraisal well on the field.

- There were also a number of Cooper Basin contracts signed during 2003, both for sales gas and ethane.

- Early this year we also signed a Heads of Agreement for the sale of gas from the Maleo discovery in Indonesia and a Letter of Intent for sale of gas from the John Brookes field off WA.
Slide 6 – 2003 Exploration Review

Looking at our exploration portfolio, we had a balanced approach in 2003, comprising the drilling of both high risk/high reward (HRHR) and low risk/low reward (LRLR) wells.

- The LR/LR exploration is traditionally our bread & butter whereas HR/HR is ground-breaking.

- I was most disappointed with our LRLR exploration where we didn’t have any success. We’ll be getting back to basics with our LRLR search in the current year.

- In the HRHR program, we discovered large gas accumulations in the Titan and Calypso wells in Indonesia, but the gas was contaminated by carbon dioxide.

- Even though the geochemical risk was sorted out, at the end of the day they were hydrocarbon failures.

- The two key exploration thrusts in 2003 were expanding our deepwater exposure and increasing our acreage around strategic gas markets in Australia and Indonesia.

- We drilled 21 wildcat exploration wells but with no commercial success.

- However, we did have considerable success in appraisal, with both the John Brookes and Casino gas fields.

- 22 percent of Santos’ current exploration acreage was added during 2003, including significant farm-ins into the Kutei Basin, East Java and Otway Basin.

- This is in line with our strategy of finding another legacy asset to underpin long-term growth.

- We have a strong and aggressive 2004 oil and gas search and I will discuss that in more detail later.
Slide 7 - Oil Program Success.

In the Cooper Basin the vision for our oil program in 2003 was to increase returns from the existing assets.

The vision was achieved via a two pronged approach

- Firstly, secondary and tertiary recovery from existing fields. The JALBU project included 17 wells, a pilot water flood and 22 re-completions in 2003. This resulted in a production increase in excess of 2,000 bopd.

- Secondly, opportunities in what we call new production from old acreage, either oil accumulations adjacent to or in existing fields. The Pelican and Merrimelia wells were clear examples. In 2004 we will be drilling at least a further 6 wells.

Improved performance in the Cooper Basin has resulted from technology that has allowed us to increase margins and lower well costs to around $1 million using lightweight rigs with reduced footprints, lower costs and faster completions.

In 2004, the vision is to continue this program through actively exploring and developing fields in acreage that has previously been considered mature or depleted.
Turning to reserves in 2003 we achieved 148% 1P reserves replacement rate, adding 80 mmboe.

Gas commercialisation contributed 69 mmboe and acquisitions contributed 14 mmboe.

Our ratio of developed to undeveloped proven reserves is continuing to improve.

In 2003 proven developed reserves stood at 43 percent of total proven reserves, but with a significant number of growth projects under development. The developed share will rise in 2004 and 2005 once Mutineer-Exeter and Bayu-Undan commence production.

To maintain the integrity of our reserves data we continue to use external consultants to audit the process.

The most appropriate measure of whether we are replacing each barrel with a higher value one is Finding and Development costs.

In 2003 we achieved a 17 percent reduction in this key metric, to US$5.62 per boe or US97 cents per mcf equivalent.

Our finding and development cost in 2003 places us in the top quartile of E&P companies.
Slide 9 – 2P Reserves Review

• Now, to changes in our 2P reserves, where we had mixed results.

• We benefited from two growth levers (gas commercialisation and acquisitions) but, whereas exploration contributed 47 million boe in 2002, there was no exploration impact in 2003.

• 2P reserves were also affected by one-off divestments such as Bentu and Bayu Undan.

• There were also downward reserves revisions in the Cooper Basin, East Spar and USA.

• The Cooper Basin revisions were at the tail end of production (10 to 15 years out) so they don’t have any impact on value.

• In the Cooper Basin, our aim is to maximise net present value by investing capital “just in time” to meet gas contracts. Obviously there is not much value in developing reserves that won’t be produced for another 10 to 15 years.

• So, we may have lost Cooper Basin barrels from the reserves revision, but at the same time we increased the value of the Basin, due to higher prices and lower costs.

• Contracting of the John Brookes and Casino gas fields in 2003 added 25 million boe.

• Increased interests in Stag and John Brookes added 24 million boe.
Slide 10 - Moomba Critical Path

- Turning to our Moomba plant, the incident in the early hours of New Year's Day was clearly an unwelcome development.

- The good news is that we are well on track to get Moomba back up to full production.

- We have resumed gas injection into storage and we now expect to be at full sales gas production capacity during the first half of April.

- Liquids production is expected to commence from the second half of May, with complete recovery in July.
Slide 11 - Moomba Incident Impact

• The impact of the Moomba incident on Santos' production in 2004 is expected to be around 3.8 million boe, of which 2.7 mmboe is sales gas and ethane and 1.0 mmboe natural gas liquids.

• Remember that we have insurance cover for property damage over and above $1.5 million, and for business interruption after 45 days.

• The estimates of profit and cash flow impact remain the same as we announced in January, $25-30 million impact on profit after tax and $35-40 million impact on operating cash flow.

• Under normal conditions, the Moomba plant operates uninterrupted for millions of man-hours a year and under stringent safety conditions.

• Congratulations to everyone involved in the manner in which the emergency response procedures were undertaken at Moomba. They have also done an outstanding job in getting production back up again.

• Significantly, there were no injuries, no disruptions to domestic gas supplies and we are unaware of any job stand-downs as a result of the Moomba incident.
Slide 12 - Accelerating the Pace of Change

- 2003 saw the completion of my first three years at Santos – my initial period of undertaking the “turnaround” process.

- Greater emphasis has been placed on exploration, gas margins have been improved, and we have achieved active production optimisation and portfolio management.

- We have concentrated on getting the people and systems in place to deliver.

- We are now accelerating the pace of change.

- We are primed for take-off.
Slide 13 – Development Profile 2001

- Our development profiles reflect the “Changing Santos”.

- When I first joined the Company in 2001, the development conveyor belt was broken. The development cupboard was bare.

- We have spent the past three years fixing it.

- We were faced with two main challenges.

- We faced a mature set of assets that were not operating efficiently, leading to a declining production outlook.

- And – as you can see from this slide – we also had only TWO new projects to replace declining production - Bayu Undan liquids and Scotia gas.

- You will also recall that, at that stage, the go-ahead for Bayu Undan still required critical issues of sovereignty to be resolved.
I am pleased to report - as you see from this slide – that the situation at Santos is now significantly better.

Since the beginning of 2001 we have achieved sanction or close to sanction on six new projects. This has been achieved through exploration, gas commercialisation and acquisitions.

These projects are replacing production with higher margin barrels.

No barrels are the same and our focus is on replacing each barrel produced with a higher margin barrel.

Exploration has delivered the high margin Mutineer-Exeter oil development (WA), the Oyong and Maleo Indonesian gas developments and the Casino gas development (SE Victoria).

Gas commercialisation has delivered Santos’ first entry into the LNG market through Bayu-Undan and also the potential John Brookes development off WA.

Acquisitions have delivered Patricia Baleen, our first offshore Victorian gas development.

As you can see we have a good mix of new and medium term growth projects.

We still have a number of major gas commercialisation opportunities before us and we have high regard for the Timor Sea-Bonaparte Gulf region where we are expanding our gas interests.
• For instance, Petrel-Tern, Hides and Evans Shoal could add over 100 PJ or 20 mmboe to annual production towards the latter part of the decade. These fields are part of our Timor initiative. Another part of this initiative will be drilling the Melville well later this year.
Slide 15 - Major Projects

I would now take some time updating you on recent developments in our key projects, Mutineer-Exeter and Bayu Undan by showing you a video.
Slide 16 - 2004 Exploration

- Today we have announced that Santos is maintaining a balanced exploration program in 2004 with budgeted expenditure of $134 million for the drilling of 23 wells.

- This is REAL straight-out exploration. They are all “wildcat” exploration wells. We don't include appraisal and/or development wells in our exploration program - even though I must mention that we had considerable appraisal success with the John Brookes and Casino gas discoveries during 2003.

- This slide shows progress against expected results since 2002, along with expectations for the 2004 program. As you can see we were well ahead during 2002 but started to fall behind in 2003.

- Significantly, our 2004 program is more balanced than 2003, but with the same upside in excess of 250 mmboe.

- The program is weighted towards high margin oil in known hydrocarbon provinces.

- Key wells will include the 3 Kutei Basin deep-water oil wells, the Amrit deep-water well in the Otway Basin in Southern Australia and the Agung oil prospect in the North Bali PSC.

- Five of our high impact wells are targeting oil plays and 2 are targeting gas.

- Key wells which are less material but can quickly add to production are the 4 gas wells we will be drilling in the Gulf of Mexico, USA, and the Charlemagne prospect, to the east of our Mutineer-Exeter oil fields.
Part of our strong focus on gas exploration is to expand our effort around known strategic gas markets.

This slide relates our gas exploration program to core gas markets.

- The high impact wells are the Nuri well in the Madura PSC, East Java, with a resource upside of over 1.6 TCF of gas, and Callister in the Otway Basin with 340 BCF. We also have a 4 well US program.

- Our gas exploration program could impact production from 2005 onwards and has a good mix of prospects that will add to production over the near, medium and long term.
Now to oil, where 2004 will be the first year that we see the impact of our increased exposure to high impact oil exploration.

2003 was the year that we acquired acreage in oil prone hydrocarbon basins.

2004 will be the year we test the materiality of this new acreage.

Key wells going forward this year are:

- Agung in our North Bali PSC;
- Our three deepwater oil exploration wells in the Kutei Basin, which will kick off with the drilling of the Pohon prospect, and
- Amrit, a deepwater well to be drilled in the Offshore Otway Basin.

Any one of these wells has the potential to more than replace our annual production.
Slide 19 – Sustainability

- I’ll now switch track to say a few words on sustainability. This is an important issue.

- I believe that sustainability should be an important part of the glue of the Company, part of its culture.

- While Santos has always been environmentally responsible, we are now taking a much broader view of sustainability.

- The idea of doing the “right thing” changes over time along with new understandings and changing technology. A company needs to be flexible and nimble to keep up with these latest developments and Santos will forge this path.
Slide 20 – Sustainability Initiatives

Our approach to sustainability is similar to our approach to other priorities. We are implementing a performance culture and you get what you measure.

We have avoided first publishing an environment report and then adding health, safety and community impact. We have chosen to leapfrog straight into a full sustainability review, to be released later this year. Some people refer this approach as radical openness.

Some examples of our progress on sustainability are:

- We are aiming to improve our fuel efficiency by reducing flaring and through other initiatives. We saved 0.5 PJ in 2003 and expect to save 1.5 PJ in 2004.

- Waste management. In 2003 we reduced hard waste landfill by 30 percent or 2,884 tonnes. In 2004 we are currently aiming to reduce it by 5,000 tonnes.

- By 2008 our aim is to reduce carbon dioxide emissions by around 20 percent below the 2002 level.
Slide 21 – SCIP

- We are also accelerating the pace of change internally at Santos, as we drive the Company to capture more opportunities.

- This slide shows our journey to date. We began in 2001 by defining our strategy and launching the Business Improvement Process, which has yielded gains of $188 million.

- We have also streamlined internal service provision through centralisation and introducing shared services.

- In November we introduced the next phase, the Santos Continuous Improvement Program which aims to:
  
  o Improve business processes;
  o Simplify our organisational structure;
  o Reduce costs; and
  o Improve our culture.

- Identified process improvements to date will, when fully implemented over the course of 2004, lead to annual gross cost savings currently estimated at $120 million ($70 million Capex, $50 million Opex), and improvement to after tax earnings in 2005 in the order of $20 million.
Slide 22 – Looking Ahead

• Now, quickly summarising our achievements since 2001.
  o We have maximised returns from our base business while increasing the number of strategic options.
  o We have delivered a growing production profile over the medium term through exploration success in 2001 and 2002 and gas commercialisation success in 2003, adding 6 new projects
  o Progress has been achieved in improving cost efficiency through the Business Improvement Program. $188 million in capital and operating savings is a most pleasing outcome and well ahead of our expectations.
  o We have also expanded our options for long term growth through expanding our exploration acreage, establishing material positions in the Kutei and Otway basins.

• Looking ahead, we are clearly well on the way with our mission of developing Santos into a growth company.

• And, despite our progress in the past three years, I assure you – we are not resting on our laurels.

• Importantly, the “change” to date has armed us with the people and systems in place to take the required next steps.

• Further emphasising the “change” is our sanctioned capital spend in 2004 of just under $800 million, covering our investments in world class, company-building projects.

• Furthermore, we have the financial capacity to meet this spend and to continue paying dividends at current levels.

• Our going-forward targets are both realistic and consistent with top quartile performance.

• I look forward to the challenges and opportunities on the horizon.

• Thank you. Now, here is Peter Wasow, our Chief Financial Officer, to speak on our 2003 results and targets.
Finance

Santos 2003 Full Year Results

Peter Wasow
Chief Financial Officer
Santos Ltd
24 February 2004
Slide 1 Introduction

Thank you John, and good morning. It’s great to see you all here today.

We are at the end of our first strategic period. What we set out to achieve in 2001 as we embarked on that journey, was to build a top quartile E&P company.

To guide our way we put in place a set of strategic objectives. Attaining the performance level set out in these objectives tells us when we’ve arrived. In the first part of my presentation, I’ll review how we went against these measures.

We’ll also have a closer look at the results for 2003, both in financial terms and in terms of how we are performing operationally.

I will close by talking about how we are positioned to accelerate the pace in our next strategic period.
Slide 2- Successful in Creating Value

Here are our strategic goals [build]

- Production
- Margin
- Replacement cost
- reserves

as we set them in 2001 [build]

The measures we used, reflect the challenges we face as an E&P company, which are largely around generating sufficient high quality investment opportunities to reinvest the 60-70 cents in cash we generate from each dollar of sales.

The targets reflect measures from both the operate cycle, like cash flow growth and also from the investment cycle, like finding and development cost.

Our performance is set out here [build]

Starting at the top, production has declined to about the level we forecast in our previous guidance, reflecting the maturity in our base asset position, the length of time required to turn around exploration and gas commercialisation opportunities, and how difficult it has been to find accretive growth through acquisitions. As I'll show later, we are very well positioned for strong growth from next year as our development projects start commissioning.

Moving to the right, on the cash flow side, we add a solid year to our decade long, 12% average growth rate.

Earnings growth has eluded us for two main reasons.

First, the introduction of a really rigorous process of reserves estimation, has meant that we’ve had downward pressure from 2P revisions which has increased our DD&A per barrel for the past three years.
Secondly, we have been exploring in riskier non producing areas and doing some housekeeping on carried forward exploration costs where, due to the introduction of stricter carry forward guidelines, we now have very little remaining dry hole costs on the balance sheet for non producing areas. Over the past two years we have written off a total of $135 million in carried exploration costs.

Continuing clockwise and looking at capital costs, we’ve had success from the Business Improvement Program, which I’ll show later, and in particular from drilling, both of which have been a major factor in reducing finding costs and finding and development costs.

The other big factor in driving this number down has been our success in cranking up the conveyor belt. We are booking more proven reserves for our capital dollar, and that’s the ultimate proof that we are moving forward.

Moving left, a very credible 148% reserve replacement ratio, against 119% last year, together with lower finding and development costs, demonstrate that we have been able to deliver real value growth.

This result has been driven from success in gas commercialisation and appraisal drilling.

And our success is reflected in our total shareholder return performance for 2003.
Slide 3 – Gas prices up

Gas prices are up, offsetting the volume decline we faced in 2003.

The highlight of this chart, and it’s a welcome change for a resources company, is our ability to drive gas prices higher.

Most resources companies are price takers. But our concerted efforts to be a price maker in the market, rather than a volume taker is reflected by $73 million of higher gas prices, partly offset by foreign exchange losses to give us a net gas price improvement of $60 million which largely offsets the production decline.

This is a good example of how Santos is focussing on delivering the dollars and not just the barrels.

Gas prices rose from $2.90 in 2002 to $3.16 on average in 2003: an increase of 9 percent.

Gas prices in the US were up quite a lot, but the impact was partly offset by the strength of the Australian dollar. In Australia, gas prices were up over 5%.

We will talk a bit more about crude prices and the value of the Australian dollar in a later slide. But suffice to say here, that the increase of almost US$4 per barrel was more than offset by a much stronger Australian dollar.
Slide 4 – Turing the corner on production costs

We’re turning the corner in cost performance.

This chart shows how we have been able to make savings in our controllable costs, notwithstanding the fact that we’ve brought new fields into production and that we’ve had to incur some one-off costs associated with the Moonie Pipeline leak.

Although not yet enough, we have been able to deliver $21 million in production cost savings from:

- the Cooper Basin where we were able to save $12 million through cost management practices and maintenance reduction programs,
- Elang/Kakatua where we were able renegotiate the FPSO lease costs,
- lower insurance premiums from joining the industry mutual,
- and a number of other smaller items.

This was offset by new fields coming on production: Patricia Baleen, Scotia, Churchie, and the acquisitions of Esenjay and Globex.

On a per barrel basis, we’ve increased our costs by 15 cents per barrel, not yet at our target of holding unit costs flat. Obviously we are not yet satisfied, and this will remain a focus area for us going forward. With the SCIP program John mentioned, we will be attacking our costs with new vigour.

As we saw at the interim, PRRT and royalties eat into our profits. (This has been mostly due to lower deductible exploration expenditure and the fact that we have used up our East Spar deductions, and offset to some extent by our lower volumes).
Slide 5 – Netback per barrel climbs

Nonetheless, our margins are improving, and not just because of oil prices.

On this chart we break up movements in our netback, or cash margin, into the component which is driven by market movements and the component which is the result of management action.

On the left of the chart we can see how we have been adversely affected by exchange rates which have largely offset the US dollar price gains.

As I show on the next slide, we actually have very little net cash exposure to the US dollar because a lot of our capital expenditure is also in US dollars. The countervailing benefit is being stored away in our balance sheet in terms of lower Australian dollar development costs.

Perhaps more important, is the right hand side of the chart where we can see how, through, management action, we have been able to improve our netback by 75 cents a barrel, largely on the back of higher gas prices.
Slide 6 – Minor Exposure to US Dollars

Returning to exchange rates, the message from this slide is that Santos has very limited cash exposure to US dollar weakness.

On the face of it, our US dollar revenue exposes us to potentially large fluctuations on account of exchange rates, and we’ve seen half of that story in our average selling price.

As you step through both of these charts from the left, we start with USD revenue, and then each offsetting exposure: hedging, operating cost, interest and capital expenditure. You eventually come to our relatively small net exposure for 2003 and 2004.

We have minor hedging in place, and going forward we are focussing more on hedging oil prices than USD. Our USD operating expenditures are mostly for offshore operations and FPSO lease costs. Interest on our US dollar borrowings also acts as an offset. And lastly, our US dollar capital expenditure, particularly Bayu Undan and Mutineer Exeter serve to reduce the exposure to quite small levels.

In 2003 our net exposure was around US$130-$140 million and in 2004 and 2005 the exposure is practically balanced.

So an important take away is that Santos is leveraged to oil prices, but less to dollar movements.
Let’s move a little further down the profit statement and consider some of the other things that are important to our results.

Let me start by saying that EBITDAX exceeded $1 billion for the fourth year.

We have already talked about higher prices, lower volumes and lower costs. Let me move on to talk about the remaining items here.

Stock reductions, predominantly represent draw downs of Cooper Basin gas storage and the timing of a couple of liftings at Stag and Legendre.

Importantly we include asset sales in our EBITDAX line.

We are in the business of finding and selling oil, whether its barrel wise, field wise or company wise. We therefore account for gains and losses, as an ordinary item. Another reason, is that the OCA sale resulted in lower dividends received, which is in fact the next item in the chart.
Slide 8 – Profit After Tax - Marginal Increase

Moving on to net profit, we were up a couple of percent.

As you can see on this chart there were a few contributing factors.

First our exploration write downs were lower than last year at $60 million. This constituted the write-off of practically all our PNG exploration plus our unsuccessful drilling in the Bawean PSC in Sumatra. Some other study costs and new venture activity was also expensed. Our clean up of past exploration costs is now complete. The backup pack details the remaining costs in our non producing areas. In it you can see that there is only $56 million of carried forward costs that are subject to geological impairment.

Second, we accelerated the depreciation on our Heytesbury gas plant onshore Otway, where early water breakthrough means that we would not otherwise be able to recover the remaining depreciated value.

DD&A was again higher, as I explained earlier, due to the rigour in our reserves processes, forcing us to recognize that some prior reserve bookings were not supported by today's facts. This has resulted in an increase in the depletion rate due to higher future development costs and downward revisions in the Cooper, US and Carnarvon, offset by reserve additions at John Brookes.

The remaining item is the inclusion of the impact of entering the tax consolidation regime, which had the effect of increasing the tax basis in our subsidiary companies, and thereby reducing our deferred tax liabilities.
And so our profit number, while up, contains a number of items which are not recurring. So what is the bottom line?

As I said last time, the real measure of this business is how we’ve been able to build a machine that has generated 12% on average compound annual growth rate in operating cash flows. And this year’s result, an increase of 9%, is on trend.

A lot of legacy issues are in the profit number, including past exploration, acquisition and reserve decisions, which muddy the reported profit result.

The real bottom line for this company is that we have continued to deliver cash flow growth, and what’s more, we have been better capital spenders: either by being better at capital operations like drilling, or by focussing our spend on higher margin business, like Bayu or Mutineer, or lastly, as we saw in John’s presentation, by continuing to generate superior investment opportunities.
Let's start with capital operations where we have delivered significantly more than promised.

This chart details elements of the Business Improvement Program which was launched in 2001, and initially promised a $50 million savings. Listed here are the projects which have delivered for our shareholders. In the yellow and green area chart we show the planned results for capex and opex. The blue and red bars indicate actual performance.

Our commitments have been ratcheted up over successive results presentations, to a total of $130 million against which we have finally delivered $188 million, with the predominance of savings being on the capital account.

We've delivered these savings from a range of individual initiatives, which have been widely worked on through out the company.

I'll focus on just one of these in the next slide: drilling.
The story in drilling is one of continuous improvement, to the point where we now use drilling performance as part of our competitive positioning.

In 1998, our performance was pretty ordinary. With the introduction of new methods, the story has changed.

In 2001 in the Carnarvon, a new well bore philosophy drove reductions, in 2002 refining the design further and better bit selection delivered a step change. Also in 2002, the operated offshore drilling activity switched to the environmentally challenging Otway Basin. Improvement was driven by leveraging the lessons of the Carnarvon and better logistics.

On shore, a rig centred campaign philosophy optimised rig count and workload. Improved bottom hole assembly designs and drill bit technology continued the charge.

And we see the same story unfolds in the US.

And this story is not just about cheaper drilling.

It’s also about the changes underway at Santos over the past few years.
Slide 12– Capital efficiency improves

As a result of better capital operations we can spend more on higher margin new business and less on our traditional business.

This chart shows how our capital spending efficiency has improved. In 2001 we spent about 45% of our total capital spend on Cooper gas. That proportion is now much lower. In the onshore areas, which are where we operate, the business improvement program initiatives have gained the most purchase.

We are realising a benefit in the changing proportion of our total spend, by switching out of relatively lower margin domestic gas into higher margin liquids projects, which improve our future cash flow profile.

So let me summarise.

Our cash flow is growing at 12% on average. And we are spending the money better, both in terms of operational results and in terms of the changing mix that permits us.

The final question on the investing side is: what does the opportunity set look like?
We showed these charts at the investor seminar in November, and I think they answer this question very well.

Our sanctioned capital spend of just under $800 million for 2004 and associated spend in later years, delivers a better go forward business, not just in terms of arresting our decline, but in terms of a better asset mix. Illustrating this point, at the investor seminar, we forecast EBITDAX to grow faster than production.

And our existing captured opportunity set has the capacity to deliver growth till the latter part of this decade.
Slide 14– Affordability of Development Program

What’s more, we have the financial capacity to meet this spend and continue to pay dividends at the current level.

Over the past few years we have been disciplined with your cash, and have been squirreling away the excess returns that have come from higher prices and better operations.

We can see on this chart that our gearing now stands at a very low 23% while funds from operations to debt stands at 70%. This latter statistic is a less quoted but probably more valid test of a company’s credit strength. It measures the ratio of cash flow to debt, and the higher it is the lower the credit risk. As a guide, our internal lower limit for this metric is 37.5%.

This gives us the capacity to not only meet the capital demands of the biggest development program in the company’s history, but to be quite confident of being able to reward shareholders with ongoing dividends.
And so to conclude.

We have completed the first stage of our strategic journey, largely where we said we would be:

- not yet growing production, but with the largest development program in the company’s history ahead of us we are well positioned for the future,
- on target for cash flow growth, but behind in earnings because of some legacy issues
- very close to target on finding and development cost
- and similarly with reserves replacement

The capacity we have built, in terms of balance sheet, operational strength and opportunity set leaves us well positioned to achieve our next set of strategic objectives.

I'll hand back to John to take us through the outlook.
Slide 15 – New Targets 2004-06

Thank you Peter.

Peter has outlined our scorecard for the last three years.

What do we believe we can achieve going forward? We released new targets in November which set us on course for the next three years.

[Build]
As far as production growth is concerned, we believe that our development suite and opportunity set can deliver 6-8 percent per annum growth in the period 2004 to 2006, measured from 2003. This would be top quartile performance for the industry.

In 2004 we expect production to be lower, but then to rebound in 2005 and 2006.

[Build]
We believe that we can achieve an average netback of A$22 per barrel. In 2003 the netback increased from $18.64 to $19.11. Contributions from Bayu Undan and Mutineer Exeter will have a significant impact on improving netback.

[Build]
We have already made good progress on our reserve replacement ratio and average replacement cost.

[Build]
As our product mix improves, we should be able to grow EBITDA faster than production and a 10 percent ROCE would be top quartile for the industry.

In summary we believe that these targets are both realistic and consistent with top quartile performance.

Thank you and I look forward to questions.